MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018 SESSION

BAC4674 – INTEGRATED CASE STUDY

(All Section / Groups)

6 JUNE 2018
9.00 AM – 12.00 PM
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 6 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

EXCELLENT SDN. BHD.
GOING GLOBAL: THE CASE OF A LOCAL SPECIALISED FURNITURE MANUFACTURER FOR THE HEALTHCARE SECTOR

Introduction

Small and Medium Enterprises (SMEs) play a significant role in the development of the Malaysian economy. However, their contribution to the national economy is still relatively small. Due to this, the government has made the development of SMEs a high priority area with a string of development agendas. Despite this, SMEs are still facing heaps of challenges and obstacles that deter them from further expanding their businesses. Factors involved include low access in borrowing and small capital investment, low access of needed infrastructure, low level of expert abilities and raw materials, low expertise in management and technical knowledge.

The challenges and obstacles faced are highly related to the developmental stage of the companies and it includes lack of managerial capabilities, shortage in financing and human resources. This increases the need for value creation among SMEs to ensure business sustainability which coexists within an environment of good corporate governance. The lack of human resources in SMEs pushes them to outsource to improve their organisation. This has encouraged the birth of Small and Medium Accounting Practices (SMPs) especially after the bad accountability and internal control in SMEs. SMEs have become the niche market for SMPs. Generally, SMPs are involved in assisting the SMEs in their compliance to accounting, taxation and other regulatory requirements. The lack of expertise becomes advantageous to SMPs to extend their services into advisory and consulting services to cater for the business needs of the SMEs in the ever changing business environment.

SMEs lack certain skill sets which are important for the success of the business and this provides opportunities to SMPs to play their role as the external service provider. SMPs need to show that they care about the problems faced by the SMEs and should be willing to "grow' with the SMEs. They might not be duly compensated now but as the SMEs are successful in the long-run, their services will be duly paid. SMPs should market their services to SMEs at affordable "customised" price to their various types of SMEs clients if possible. For the moment, there is no trust and spirit of relationship building" or "co-sharing" amongst the SMPs and SMEs, as relationship building is an important element. Both parties should know that in the long run, to be successful both parties should continue to work together so that their businesses will be able to grow and expand.

The Malaysian Institute of Accountants had released the findings of a research on the unfulfilled needs of SMEs in areas where accountants can provide solutions. It was noted that in addition to compliance related services such as accounting, auditing and tax services, the SMEs views other services such as strategy advisory, internal control enhancement, financial planning and mergers and acquisitions as important for their competitiveness.

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Therefore, further understanding of how the services transformed the SMEs into more competitive enterprises would be helpful for this sector. This can only be done if the professional business service providers and policy makers are able to meet the services required by the SMEs.

From a challenging start

Excellent Sdn. Bhd. (ESB) is Malaysia's leading medical furniture manufacturer. ESB aims to be a successful and recognized manufacturer in providing specialised equipment for today's healthcare sector. The company's vision is to be an innovative leader in the healthcare industry committed to delivering the exceeding expectations of their customers, employees, business partners and stakeholders with their safe, effective and durable medical equipment.

Their mission is to build on their scientific, technical and commercial expertise, being responsible in providing innovative, durable medical equipment and services to create an everlasting value to their customers, employees, business partners and stakeholders through the following:

- Leading the healthcare industry by designing, manufacturing and distributing value added products and services with user-friendly solutions
- Keeping abreast with the modern state-of-the-art manufacturing technology
- Lining up new product innovations that foster creativity, teamwork and achievement

The company was first started on a partnership basis in 1978 by the Managing Director and his partner. After the partner left ten years later, the Managing Director started his own business on a small scale in Seri Kembangan. He focused more on the business in private hospitals, medical centres and clinics. During the early 1990s, the Managing Director changed his company's name and registered it as Excellent Sdn. Bhd. Three years later, the company started to increase the human resources to fifty employees and increased their ability to design and develop new products because they already had more machinery and a bigger market share. They kept on improving their products from very basic manual medical furniture then slowly to the hydraulic to electrical hydraulic system and then electrical motorised medical furniture. By the late 1990s, ESB started to have the electrical medical furniture and increased more employees.

In ESB, there is a Chairman, Managing Director and Executive Director. Under the Managing Director, there are the Sales and Marketing Department Manager, the QA/QC Department Head, the R&D Department the Manufacturing Department, HR & Administration Department, the Accounting Department and the IT Department. Currently, ESB has one hundred employees including those at the warehouse. Out of that number, more than thirty are office workers and the rest are production workers. Of the thirty office workers, ten are in managerial positions.

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Under the Sales and Marketing Department, the Export Manager is in charge of the sales and export. In that department, they have administrative and sales support. Before joining ESB in 2003, the Export Manager was working in SQC Management, a consultancy company for ISO 9000, ISO 14000 and TS19649. Besides that, he also attended ISO training because there was always a new version coming up, for example ISO 3045 for which he had not yet been. On top of ISO training, he also went for training on efficiency by the MPC, the shipping inter-code training, etc.

The accounting department

In the Accounting Department, the Account Manager is in charge of the audit as well as the full accounting work which includes bookkeeping, checking on all the accounts, payments, accounts payable and accounts receivable until submission to audit. In addition, she also has administrative duties like attending to salary payment. She reports to the Managing Director and normally also to another Executive Director. Within the accounting department, there are two sections, which are the accounts receivable and the accounts payable. Each section has two staff members under them. The accounting system that the department uses is the ERP (Enterprise Resource Planning) System under Microsoft Dynamic.

The Certifications

Excellent Sdn. Bhd. earned the trust and confidence of healthcare providers, because it had proven itself when it achieved many awards and certifications. The company is the first in the Malaysian industry to be awarded the ISO 9001:2000 and ISO 13485:2003 certification by the world renowned German body, TUV. These ISO 9001:2000 and ISO 13485:2003 awards are testament to the company's tireless pursuit of quality. In addition, they also have the CE mark and ISO 9001:2008 on top of numerous awards like:

- Golden Bull Award 2004 for The 2nd Malaysia's 100 Outstanding SMEs
- Keris Award 2004 for The 3rd Asia Pacific International Honesty Enterprise
- SMI Recognition Award Series 2004 for SMI – Maybank Rising Star
- Enterprise 50 Award 2006 for Among Top 10 - Ranked 6
- SMB Recognition Award Series 2005 for SMB Emerging Business Award
- MMEBA Platinum Brand Award 2007 for 2007 Platinum Award
- MMEBA Corporate Branding Export Market Gold Award 2007 for 2007 Gold Award
- Golden Bull Award 2007 for The 5th Malaysia's 100 Outstanding SMEs
- SME Recognition Award Series 2007 for Women Entrepreneur Award 2007
- MPC Productivity Award 2007
- Anugerah Majikan Berdaya Saing (IKS) 2009 from the Prime Minister, Dato' Seri Mohd. Najib bin Tun Haji Abdul Razak

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Company's Edge

Many factors have contributed to the success that they have today. These factors are both internal and external. The main internal factor is the Managing Director himself. The Managing Director has a very good vision and mission in the company as well as the wisdom expected of a managing director. In addition, he is also a very dedicated and committed person. Besides that, ESB has skilled personnel; it also has the latest technology in manufacturing processes that meets with the strict German certification board guidelines that places it among the ranks of internationally-acclaimed manufacturers recognised for their superior quality systems. The company is also the first hospital furniture manufacturer in the local industry to use advanced robotic welding systems.

Presently, they are utilising computer aided machinery in almost all of their manufacturing processes starting from the design level with the Auto-CAD to the fabrication level with computer programmed punching, CNC bending and cutting machines. Furthermore, they have technologies from their business alliances and linkages with world class manufacturers which enable them to further enhance their ability to deliver superior quality products that surpass international standards. Moreover, they are always gathering their customers' feedback on their products to enable them to improve their existing products as well as create new solutions.

The same goes for the company's research and development team of qualified and experienced engineers who design and engineer their products to meet customers' requirements. Another internal success factor is that their quality and technologies are much better than their local competitors. Furthermore, ESB's success is also contributed by external factors. ESB's products are manufactured in Malaysia and due to the good reputation which other local furniture products have received overseas for their excellent quality; ESB has no problem selling their products overseas as the customers abroad have trust and confidence in Malaysian-made products. Other than that, through the Non-Allied Movement (NAM) meeting, the governments of Islamic countries will try to help each other out by giving priority to buying from one another. Therefore, they still have some room to survive.

Accounting and tax services

For tax compliance, auditor and secretarial services, ESB engaged an accounting firm. When they came to ESB, they discussed and gave some advice to the company regarding tax matters unlike their previous engaged accounting firm where they did not give any advice on branding, budgeting, forecasting and so forth. However, as a client ESB expect more from the current engaged accounting firm. The company did not need external service for quality management because it continuously recruited more qualified personnel who were able to measure the KPI (Key Performance Indicator), the efficiency, the productivity, etc. After that, they obtained the data to analyse and make improvements.

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In other words, ESB needs the services and assistance from external parties to help them with the R&D. They want assistance in getting feedback from the end users, inventing some new products, acquiring lots of input for their R&D as well as doing some clinical studies for references or new ideas.

Moving forward

As for the challenges, the company is facing them in terms of maintaining their product quality. They have to constantly improve their products and enhance their quality. They also face a challenge when it comes to the prices of raw materials especially the imported ones. On top of that, ESB is also facing the challenge of insufficient foreign labors as well as high local workers' turnover. This is a challenge for the company as they need to train the workers until they have the necessary knowledge in many aspects.

In today's ever-changing medical surroundings, healthcare providers face many new challenges including enhancing the overall quality of patient care. Not only must they focus on saving and prolonging human lives, but also on ensuring that the manner in which it is done is safe, pleasant and comfortable. The future expansion plans for the company include public listing it in three or five years' time.

The company's sales growth has also increased a lot from the days of their early operations. Their most notable achievements include producing Malaysia's first fully electric ward bed, first foot-pedal controlled electric delivery bed and first advanced "5th wheel" technology patient transport trolley. As all of their products are of outstanding quality and come with excellent after-sales service plus prompt response to customers' requests, their customers have great faith in them.

ESB's customer base includes both local and international markets. The company sells 60% to 70% of their products locally and the remaining products are exported. They have furnished numerous medical institutions throughout Malaysia, both from the government and private sector, including the prestigious Hospital Putrajaya. In the international market, ESB's products can be found at various hospitals throughout:

- Asia – Japan, Hong Kong, Singapore, Brunei, Vietnam, Laos, Thailand, Philippines, Indonesia, Tajikistan, Cambodia
- South Asia – Bangladesh, Sri Lanka, India, Pakistan, Maldives, Mauritius
- Middle East – Kuwait, Iraq, Saudi Arabia, Yemen, United Arab Emirates, Jordan, Bahrain, Oman
- Oceania – Papua New Guinea, Australia
- Europe – Switzerland, Germany, Finland, Poland, United Kingdom
- Africa – Zambia, Kenya, Botswana, Ghana, Sudan
- North America – Mexico

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In the beginning, the company managed to successfully manufacture their first hydraulic furniture in late 1990s and then supply the first batch to a local private hospital. Up until 2006, they had supplied more than 7,000 units. Two years later, the company successfully manufactured their first electric furniture and supplied the first batch to Columbia Pacific Healthcare Hospital. Up until 2006 they had supplied more than 2,500 units.

In 2000, ESB was successful in being awarded their first government hospital project. In the year 2000 also, ESB signed their first Original Equipment Manufacturer (O.E.M) contract with a Japanese. The company then started to penetrate the overseas market. By early 2000s, ESB started their first International exhibition trade fair, Hospice Medica Singapore, and after which it went to the Arab Health Care Show. A year later, the company actively participated in international and local trade fairs. This led to the company acquiring new customers from Switzerland, Iraq, Kuwait, Saudi Arabia and Bangladesh as well as signing the second O.E.M. contract with a Switzerland based company. Then in 2004 onwards, they started to look for new contracts and new sales to come in from overseas by holding a lot of exhibitions and participated in the Medica Germany exhibition followed by the Dubai Health Care Show, Medica India, Australia and Vietnam. In fact, before this, the company had actually slowly started selling their products abroad to countries like Singapore and Brunei much earlier from 1998 to 2003. By the mid 2000s, ESB actually managed to secure 14 hospitals out of the 18 hospitals that the government built under The Eight Malaysian Plan.

As for now, the local market for medical furniture is more for replacement purposes for government hospitals and expansion purposes for private hospitals. As the government is now having fewer projects for building new hospitals, the sales growth for the sector is very slow. On the more positive side is the expanding market of the private hospitals. As for ESB's export market, the competition is very stiff because they have to compete in the global market. Their main competitors in the export market are the hundred over manufacturers from China because of the price factor. When it comes to standard, the European products are very good but their prices are also very high. Therefore, for standard, ESB has CIMA and thus they can venture into the European market.

To some people, the medical furniture industry is a recession-proof industry because it is in the medical line whereby the demand is always there despite the state of the economy. To ESB, their continuous improvement philosophy with customers in mind has allowed them to set numerous industry benchmarks in terms of quality, innovation and customer satisfaction. At ESB, they believe that customers always come first.

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QUESTION

(i) In the context of the above articles,

(a) define what is Small and Medium Accounting Practices (SMPs).

(4 marks)

(b) what are the roles of SMPs that the author wish to highlight in relation to Small Medium Enterprises (SMEs).

(6 marks)

(ii) Based on ESB core business, relevant government agencies and private sector are able to play bigger role in providing assistance to overcome the obstacles the company is facing.

In your opinion which organisation can assist ESB to solve their problems? How can they help and name the organisations? Justify your answer why these organisations are important?

(20 marks)

(iii) What are the major challenges faced by ESB to come to where it is now? List out five (5) main problems of the company and how do they overcome the challenges. What are the challenges currently faced by the company?

(20 marks)

(iv) How best can the professional services providers or SMPs play its roles in providing services and activities which would enhance the resilience of SMEs in Malaysia?

(15 marks)

(v) What are the key important factors that contribute towards the success of ESB company?

(20 marks)

(vi) Proposed a strategy that would assist ESB in expanding their market share.

(15 marks)

Total: 100 marks

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